

**GOVERNMENT OF THE DISTRICT OF COLUMBIA  
OFFICE OF THE INSPECTOR GENERAL**

**AUDIT OF THE DEPARTMENT OF HOUSING  
AND COMMUNITY DEVELOPMENT'S  
MANAGEMENT OF THE WALTER E. WASHINGTON  
ESTATES COMMUNITY CENTER PROJECT**



**CHARLES C. MADDOX, ESQ.  
INSPECTOR GENERAL**

**GOVERNMENT OF THE DISTRICT OF COLUMBIA**  
**Office of the Inspector General**

Inspector General



December 10, 2003

Stanley Jackson  
Director  
Department of Housing and Community Development  
801 North Capitol Street, N.E.  
Washington, D.C. 20002

Dear Mr. Jackson:

Enclosed is the final report summarizing the results of the Office of the Inspector General's (OIG) Audit of the Department of Housing and Community Development's (DHCD) Management of the Walter E. Washington Estates Community Center Project (OIG No. 02-1-9DB(g)). We conducted this audit as a part of an overall audit of DHCD's management of the Community Development Corporation projects, which was requested by the Director, Department of Housing and Community Development

In order to facilitate the audit, we issued Management Alert Report No. 03-A-01 (Exhibit B) to DHCD on April 16, 2003. In that report, we recommended that cash disbursements for the Walter E. Washington Estates Community Center Project be suspended until the grant subrecipient provided appropriate supporting documentation to DHCD for project costs of \$1.3 million. We also recommended that DHCD initiate recoupment action to recover all Community Development Block Grant funds disbursed to the grant subrecipient for project costs that were not properly supported by documentation.

Prior to issuing this report, DHCD immediately agreed to suspend cash disbursements for the Walter E. Washington Estates Community Center Project, recovered \$597,620, obtained additional documentation to support project costs for \$155,508, and conducted a reconciliation of the \$1.3 million advance of grant funds disbursed to the grant subrecipient. DHCD also obtained additional documentation to support project costs for the Soil Stabilization Project amounting to \$292,570.

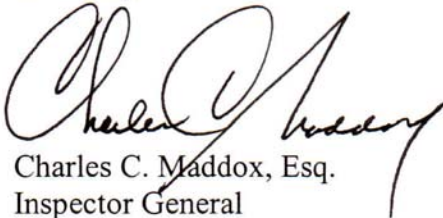
The grant subrecipient and a contractor are discussed, although not identified, in this audit report. Although no recommendations were addressed to the grant subrecipient or the contractor, we provided these entities with copies of this audit report. We received comments to a draft of this report from the President of the contract company referred to in the audit report. These comments emphasizing the contractor's cooperation in resolving reported deficiencies have been included as part of the permanent audit files.

Mr. Stanley Jackson, Director, DHCD  
December 10, 2003  
OIG No. 02-1-9DB(g) – Final Report  
Page 2 of 4

As a result of the audit, we directed recommendations to DHCD that represent necessary actions to properly account for and provide adequate oversight of cash disbursements for the Walter E. Washington Estates Community Center Project. We want to acknowledge that DHCD has reacted positively to the audit results and has taken action to address our recommendations. The DHCD responses to our draft report are incorporated where appropriate. The full text of DHCD's response is included at Exhibit D.

If you have questions, please contact William J. DiVello, Assistant Inspector General for Audits, or me at (202) 727-2540.

Sincerely,



Charles C. Maddox, Esq.  
Inspector General

CCM/ws

Enclosure

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**AUDIT OF THE DEPARTMENT OF HOUSING  
AND COMMUNITY DEVELOPMENT’S  
MANAGEMENT OF THE WALTER E. WASHINGTON  
ESTATES COMMUNITY CENTER PROJECT**

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## EXECUTIVE DIGEST

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### OVERVIEW

The Office of the Inspector General, District of Columbia, has completed an audit of the District of Columbia Department of Housing and Community Development's (DHCD) management of the Walter E. Washington Estates Community Center Project (the Community Center project). DHCD provided an advance of \$1.3 million of Community Development Block Grant (CDBG) funds to a Community Development Corporation (grant subrecipient) to fund the pre-development and construction costs associated with the Community Center project.

This audit is the second in a series of audits that evaluate the DHCD's management of resources and monitoring of two projects. The first audit report in this series covered DHCD's management of the HOME Investments Partnerships Program. Upcoming reports will focus on DHCD's management of Community Development Corporation projects, Grant Drawdowns, and DHCD's Loan Portfolio. We also plan to issue a report on DHCD's management of cash advances to a specific contractor.

We conducted this audit as a part of an overall audit of DHCD's management of the Community Development Corporation projects, which was requested by the Director, Department of Housing and Community Development. Our specific objective was to determine whether DHCD properly accounted for and provided adequate oversight of federal grant funds disbursed for the Community Center project. During the audit, we discovered that another project, the 202 Soil Stabilization project, was associated with the Community Center project and located adjacent to the construction site. We noted that DHCD advanced \$950,000 of Home Investment Partnerships Act (HOME) grant funds to a contractor for the Soil Stabilization project. Therefore, we reviewed documents and records related to the Soil Stabilization project as a part of our audit.

The audit included a review and evaluation of DHCD's policies, procedures, and other management controls over the disbursement of grant funds, as well as records and documents to support project costs. We conducted interviews with DHCD officials and held discussions with DHCD employees who have duties related to the projects. We also visited the construction site of the Community Center project accompanied by DHCD officials.

### CONCLUSIONS

Our review of the Grant Agreements and project files for the Community Center and Soil Stabilization projects disclosed that as of March 19, 2003, the grant subrecipients did not use a total of \$1,164,260 in grants funds for the intended purposes. Specifically, of the \$1,315,446 of CDBG funds advanced to fund pre-development and construction costs for the Community Center project, \$748,190 was not supported with valid vendor invoices for work completed on the project. Similarly, a review of documents and records related to the Soil Stabilization project show that although \$950,000 of HOME grant funds was advanced for the project, \$416,070 of project costs had not been properly documented.

## EXECUTIVE DIGEST

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This occurred because DHCD had not properly monitored project performance or followed existing federal regulations and in-house procedures governing the disbursement of grant funds. DHCD also had not established adequate procedures and other controls to ensure that grant funds advanced to a grant subrecipient for a project are properly reconciled and adequately supported with documentation that is directly related to the project. As a result, we are questioning \$1,164,260 of grant funds provided to the grant subrecipients and recommending that DHCD initiate action to recoup these funds.

In order to facilitate the audit, we issued Management Alert Report No. 03-A-01 to DHCD on April 16, 2003. In that report, we recommended that cash disbursements for the Walter E. Washington Estates Community Center Project be suspended until the grant subrecipient provided appropriate supporting documentation to DHCD for project costs of \$1.3 million. We also recommended that DHCD initiate recoupment action to recover all Community Development Block Grant funds disbursed to the grant subrecipient for project costs that were not properly supported by documentation.

Prior to issuing this report, DHCD immediately agreed to suspend cash disbursements for the Walter E. Washington Estates Community Center Project, recovered \$597,620, obtained additional documentation to support project costs for \$155,508, and conducted a reconciliation of the \$1.3 million advance of grant funds disbursed to the grant subrecipient. DHCD also obtained additional documentation to support project costs for the Soil Stabilization Project amounting to \$292,570.

The grant subrecipient and a contractor are discussed, although not identified, in this audit report. Although no recommendations are addressed to the grant subrecipient or the contractor, we have provided these entities with copies of this audit report should they desire to provide comments.

## SUMMARY OF RECOMMENDATIONS

We addressed recommendations to the Director, DHCD that we believe are necessary to address the concerns described above. The recommendations focus on:

- establishing policies and procedures that address the criteria for receiving a cash distribution in the form of a cash advance;
- establishing guidance addressing the method to be used to distribute the cash, whether it is the cash advance method or the cash reimbursement method;
- establishing timelines for submitting documentation required to support cash disbursements from subrecipients;
- formalizing the types of documentation that are considered to be valid support for incurred expenditures for a cash distribution;

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## EXECUTIVE DIGEST

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- establishing responsibilities and procedures for conducting a reconciliation of cost expenditures submitted by recipients of cash distributions;
- establishing guidance and procedures for designated DHCD personnel to follow when awarding and administering a cash disbursement;
- specifying a subrecipient's specific administrative responsibilities related to cash disbursements for future grant agreements;
- requiring that future cash draws disbursed to the grant subrecipient for Grant Agreement 2002-50 be disbursed on a cash reimbursement basis for incurred costs associated with the project; and
- initiating recoupment action as appropriate to recover all HOME funds disbursed to a grant subrecipient that are not supported by valid cost documentation for Grant Agreement 2001-63.

### CORRECTIVE ACTIONS

In order to facilitate the audit, we issued Management Alert Report No. 03-A-01 (Exhibit B) to DHCD on April 16, 2003. In that report, we recommended that cash disbursements for the Walter E. Washington Estates Community Center Project be suspended until the grant subrecipient provided appropriate supporting documentation to DHCD for project costs of \$1.3 million. We also recommended that DHCD initiate recoupment action to recover all Community Development Block Grant funds disbursed to the grant subrecipient for project costs that were not properly supported by documentation.

Prior to issuing this report, DHCD immediately agreed to suspend cash disbursements for the Walter E. Washington Estates Community Center Project, recovered \$597,620, obtained additional documentation to support project costs for \$155,508, and conducted a reconciliation of the \$1.3 million advance of grant funds disbursed to the grant subrecipient. DHCD also obtained additional documentation to support project costs for the Soil Stabilization Project amounting to \$292,570. The full text of DHCD's response is included at Exhibit D.

A summary of the potential benefits resulting from the audit is shown at Exhibit A.

## INTRODUCTION

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### BACKGROUND

**Department of Housing and Community Development.** DHCD uses its funds to support programs that provide housing, neighborhood revitalization, and support services for low-income and moderate-income households (households with incomes below 80 percent of the area median income). DHCD focuses the use of these funds in three areas: (1) increasing homeownership opportunities; (2) preserving and increasing the supply of affordable housing through new construction and rehabilitation; and (3) revitalizing neighborhoods, promoting community development, and providing economic opportunities. DHCD receives approximately 80 percent of its funding from the U.S. Department of Housing and Urban Development (HUD) and uses Community Development Block Grant (CDBG) and HOME Investment Partnerships Acts (HOME) funds to support its programs.

**Walter E. Washington Estates Community Center Project.** The Community Center project envisions a community center, tennis courts, and guardhouse to provide residents of the Walter E. Washington Estates with a place for community and recreational events. Walter E. Washington Estates is comprised of 141 residential townhouse units and a housing development for 45 senior tenants.

The 11,000 square foot community center will house a daycare center for 75 children and an after-care center for children to attend after school hours. A computer learning center, with new state-of-the-art equipment, will serve as an integral part to the curriculum offered at the daycare and after-care centers. Adults will be able to access the computer center in the evenings and on weekends. The tennis courts provide the kind of open-air activities that are a standard feature in most residential neighborhoods, and the guardhouse will ensure the safety and comfort of all of the families. The estimated cost to construct the community center is \$1.5 million, the tennis courts will be \$300,000, and the guardhouse is \$100,000.

**Soil Stabilization Project.** The Soil Stabilization project entails improving the 0.85 acres located at 800 Southern Avenue S.E., Washington, D.C., in order to accommodate the construction, use, and operation of a 45-unit residential housing building for elderly and disabled citizens of the District of Columbia. A Section 202 grant from HUD was used to fund the 45-unit building. The Soil Stabilization project's plan was to back-fill the building site with dirt from the Community Center project's site. Alternatively, the Soil Stabilization project's plan was to import sanitary fill for the building site and haul away the dirt excavated from the Community Center project's site.

Records indicate that the same contractor was hired to construct both the 45-unit building and the Community Center; therefore, subcontractors and building crews could move easily and efficiently between projects. In addition, construction of the Community Center project was coordinated with the site construction at the adjacent 45-unit building site to curb construction costs for mobilization and for moving directly from one site to the next.

## INTRODUCTION

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### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the overall audit were to evaluate the following: (1) project management of grant funds within DHCD and grant funds provided to Community Development Corporations and other grant subrecipients; (2) reconciliation and accounting for those grant funds within DHCD; and (3) benefits and appropriate use of those funds by Community Development Corporations and other grant subrecipients. Our specific objective in this segment of the overall audit was to determine whether DHCD properly accounted for and provided adequate oversight of cash disbursements for the Community Center project.

To accomplish the audit, we reviewed subgrant agreements, project files, commitment letters, project management information, cash disbursement vouchers with supporting documentation, and other related documents. We conducted interviews with representatives from DHCD. We also visited the construction site for the Community Center project.

We relied on computer process data from the District of Columbia System of Accounting and Reporting to provide us with a detailed transaction of DHCD cash disbursements for the Community Center project and the Soil Stabilization project. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that the cash disbursement amounts reviewed by us generally agreed with the information in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objective or that would change the conclusions in this report.

Overall, the audit covered the period FY 2001 through FY 2003, was conducted in accordance with generally accepted government auditing standards, and included such tests as we considered necessary under the circumstances.

We will be issuing a series of reports that address other operational issues within DHCD. Upcoming reports will focus on DHCD's management of Community Development Corporation projects, Grant Drawdowns, and DHCD's Loan Portfolio. We also plan to issue a report on DHCD's management of cash advances to a specific contractor.

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## FINDING AND RECOMMENDATIONS

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### FINDING: EVALUATING THE USE OF GRANT FUNDS

#### SYNOPSIS

Our review of the Grant Agreements and project files for the Community Center and Soil Stabilization projects disclosed that as of March 19, 2003, the grant subrecipients did not use a total of \$1,164,260 in grants funds for the intended purposes. Specifically, of the \$1,315,446 of CDBG funds advanced to fund pre-development and construction costs related to the Community Center project, \$748,190 was not supported with valid vendor invoices for work completed on the project. Also, a review of documents and records related to the Soil Stabilization project showed that although \$950,000 of HOME grant funds was advanced for the project, \$416,070 of project costs had not been properly documented. This occurred because DHCD had not properly monitored project performance or followed established federal grant regulations and DHCD procedures governing the disbursement of grant funds. DHCD also had not established adequate procedures and other controls to ensure that grant funds advanced to a grant subrecipient are properly reconciled and adequately supported with documentation that is directly related to the project. As a result, we are questioning \$1,164,260 in grant funds provided to the subrecipients and recommending that DHCD initiate action to recoup these funds.

#### DISCUSSION

Federal regulations provide guidance for the management and administration of grant funds used by participating jurisdictions. The regulations are found at 24 C.F.R. §§ 85.1 – 85.22, 92.1 – 92.552, 570 – 570.913 (2003).

DHCD procedures for managing and providing oversight of organizations funded by the CDBG program are contained in DHCD's Community Development Block Grant Subrecipient Management and Oversight Procedures, effective May 1999. Relevant federal regulations and DHCD procedures are discussed in greater detail in the following paragraphs.

**Federal Regulations Concerning Grant Agreements.** The financial management system of grantees must effectively control and be able to account for all grant and subgrant funds to assure that the grant is used solely for authorized purposes. *See* 24 C.F.R. § 85.20(b)(3)(2003). Section 85.21 states that the procedures used by grantees to make payment to subgrantees and contractors "shall minimize the time elapsing between the transfer of funds and the disbursement by the grantee or subgrantee." 24 C.F.R. § 85.21(b)(2003).

Also, "[g]rantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee."

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## FINDING AND RECOMMENDATIONS

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24 C.F.R. § 85.21(c). Otherwise, the reimbursement method of payment shall be the preferred method when these requirements are not met. *See Id.* Finally, “[g]rantees and subgrantees may also be paid by reimbursement for any construction grant. *Id.*

Section 85.40(a) further provides that grantees, such as DHCD, are responsible for managing the day-to-day operations of grant and subgrant supported activities. “Grantees must monitor grant and subgrant supported activities to ensure compliance with applicable [f]ederal requirements and that performance goals are being achieved.” *Id.*

**Federal Regulations Concerning the Management of the CDBG Program.** Section 570.501(b) states that a grantee is responsible for administering a CDBG grant to ensure that CDBG funds are used in accordance with all program requirements. “The recipient is also responsible for determining the adequacy of performance under subrecipient agreements . . . and for taking appropriation action when performance problems arise . . .” *Id.*

Section 570.506 requires that each recipient maintain sufficient financial records in accordance with 24 C.F.R. § 570.502. Section 570.502 requires recipients and subrecipients that are governmental entities to comply with the requirements and standards specified in 24 C.F.R. § 85.21 (among others) for payments to subgrantees and contractors (as modified by 24 C.F.R. § 570.513) and 24 C.F.R. § 85.40 for monitoring program performance.

**Federal Regulations Concerning the Management of the HOME Program.** Under 24 C.F.R. § 92.504(a), a participating jurisdiction is “responsible for managing the day-to-day operations of its HOME program; ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise.” Section 92.508(a)(3) requires each participating jurisdiction to establish and maintain sufficient records that permit HUD to conclude whether the jurisdiction has met the program requirements, including the source and application of funds for each project and any supporting documentation in accordance with 24 C.F.R. § 85.20.

## FINDING AND RECOMMENDATIONS

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**DHCD Procedures for Management of CDBG Funded Subrecipients.** DHCD's *Community Development Block Grant Subrecipient Management and Oversight Procedures*, Section 3(A)(3) requires subrecipients who receive an advance payment to submit a bi-monthly reconciliation package that contains supporting documentation for the preceding 2 months of CDBG expenditures. Section 3(A)(4)(f) provides that the reconciliation package must be reviewed in detail to ensure that each expenditure is necessary, reasonable, and directly related to the grant, and that costs are adequately documented. Section 3(A)(7) requires that if a subrecipient consistently provides information that does not reconcile or includes unallowable costs, a decision must be made as to whether the subrecipient will continue to be paid through the cost reimbursement method. Section 3(B)(2) states that a subrecipient who is being paid on a reimbursement method, e.g., payment of CDBG funds to the subrecipient based on actual expenditures that the subrecipient has already incurred, it must submit a payment request and all supporting documentation.

Section 3, Part B.3 requires a subrecipient's request for reimbursement of costs to be reviewed to ensure that the expenditures were necessary, reasonable, directly related to the project, and adequately documented. Section 3, Part B.5 states that if the payment request is not accurate or incomplete, DHCD should notify the subrecipient and attempt to obtain additional information. If this process is unsuccessful, the payment request should be reduced by the amount in question.

Finally, Section 5, Part A requires DHCD to monitor subrecipient activities to ensure that the subrecipient is carrying out the CDBG funded activities outlined in its application and written agreement; carrying out its activities in a timely manner; charging costs to the project that are eligible and reasonable; and able to continue to carry out approved activities.

**Grant Agreements.** DHCD executed two Grant Agreements to obtain the services needed for the Community Center and the Soil Stabilization projects.

**Grant Agreement for the Community Center Project.** DHCD executed Grant Agreement 2002-50, dated May 22, 2002, and awarded \$1,837,000 of CDBG funds to the subrecipient to finance pre-development and construction costs connected with the Community Center project. The Grant Agreement provides that the grant subrecipient shall comply with all applicable United States and District of Columbia laws and regulations and requires any recipient of a subgrant, such as contractor, to comply with the same.

The grant subrecipient awarded a subgrant in the same amount as the DHCD award, \$1,837,000, to a contractor on May 22, 2002, to manage the pre-development and construction activities connected with the Community Center project. The subgrant requires the contractor to comply with all applicable terms and conditions of Grant Agreement 2002-50.

The subgrant also requires the contractor to ensure that its request for funding under the Grant Agreement is in full compliance with all DHCD deemed applicable CDBG regulations

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## FINDING AND RECOMMENDATIONS

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prior to any (cash) drawdown or disbursement of grant funds specifically mentioned in the Grant Agreement or included in CDBG regulations and laws.

In summary, DHCD advanced federal grant funds to a grant subrecipient, who, in turn, awarded the funds via subgrant to a contractor for reimbursable costs related to the Community Center project. The contractor was responsible for submitting all required documents when requesting funding for reimbursable costs.

**Grant Agreement for the Soil Stabilization Project.** On December 27, 2001, DHCD executed Grant Agreement 2001-63 and awarded \$950,000 in HOME grant funds to the same contractor used to construct the Community Center project. These grant funds were awarded to the contractor to finance pre-development costs, both hard (construction) and soft (i.e., management services, architectural drawings, etc.) associated with soil stabilization and site preparation for the construction of a 45-unit building to house elderly and disabled citizens of the District of Columbia.

The Grant Agreement requires the contractor to be in full compliance with all applicable DHCD, HOME, CDBG, and federal regulations prior to any drawdown or disbursement of grant funds. Also, the Grant Agreement states that the contractor and DHCD have agreed that any drawdown (or disbursement) of grant funds must be consistent with the purpose of pre-development costs funded by the HOME grant.

**Grant Agreement Provisions Concerning Disbursements of Grant Funds.** The Grant Agreements for the Community Center and the Soil Stabilization projects provide a disbursement clause stating that grant funds are to be disbursed in accordance with drawdown schedules incorporated within the Grant Agreements. Also, the Agreements state that the funds are to be disbursed in accordance with the terms and conditions of the Grant Agreements, provided that the grant subrecipient has satisfied the documentary requirements to the satisfaction of DHCD.

Although the Grant Agreements provide drawdown schedules, the disbursement clauses do not state whether the drawdowns are to be disbursed based on a cash advance method or a cash reimbursement method. In addition, the Grant Agreements fail to address the time-frames and types of supporting documentation that the grant subrecipients are to provide DHCD for reconciliation purposes (to ensure that all grant funds disbursed to the grantee are supported by valid project costs).

DHCD used the cash advance method to disburse grant funds to the grant subrecipients for both the Community Center and Soil Stabilization projects. **Table 1** below shows the approved schedule of budgeted and approved drawdowns for the Community Center project.

## FINDING AND RECOMMENDATIONS

<b>Table 1 Schedule of Budgeted and Approved Drawdowns for the Community Center Project</b>				
<b>Line Item</b>	<b>Draw Number 1 May 2002</b>	<b>Draw Number 2 June 2002</b>	<b>Draw Number 3 July 2002</b>	<b>Total Line Item Cost</b>
Construction	\$566,000.00	\$663,373.00	\$323,127.00	\$1,552,500.00
Architectural and Engineering	57,000.00	19,500.00	20,500.00	97,000.00
Legal and Organizational	92,500.00	40,000.00	55,000.00	187,500.00
<b>Total</b>	<b>\$715,500.00</b>	<b>\$722,873.00</b>	<b>\$398,627.00</b>	<b>\$1,837,000.00</b>

**Monitoring Project Performance.** As provided by federal regulations, DHCD is responsible for monitoring the day-to-day operations of grant and subgrant supported activities. However, DHCD did not properly monitor construction activities at the Community Center project to ensure that the grant subrecipient disbursed grant funds in a timely manner and for valid project costs. Project files and other related records indicate that as of August 30, 2002, DHCD had disbursed approximately \$1.3 million of grant funds for project costs (\$715,500 disbursed on May 22, 2002, and \$599,946 on August 30, 2002). There was no documentation in the project files demonstrating that DHCD conducted on-site monitoring to verify that the contractor was completing the Community Center project in a satisfactory and timely manner. Consequently, we conducted a site visit for the purpose of evaluating the amount of progress made on the Community Center project.

**Visit to the Community Center's Construction site.** We conducted two site visits at the Community Center project's construction site on March 18, 2003. At the auditor's request, DHCD officials accompanied us on our second site visit. The site visits disclosed that the only apparent construction activities completed using the \$1.3 million in CDBG grant funds disbursed by DHCD was the partial completion of a retaining wall and the movement of soil. In our opinion, virtually no progress had been made on the project during the 10-month period between the May 22, 2002, award and the date of our site visit, March 18, 2003.

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## FINDING AND RECOMMENDATIONS

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Figure 1 is a picture taken during our site visit to the Community Center construction site on March 18, 2003, and shows no apparent construction activities. The construction site is located at Ninth Street and Southern Avenue, S.E., Washington, D.C.



Figure 1. Community Center Project Construction Site

DHCD officials told us that several on-site visits had been made by staff from DHCD's Developmental Finance Division prior to the disbursement of grant funds for project costs. However, on the date of our site visit, DHCD officials could not provide us with specific details as to what construction activities had been completed using the \$1.3 million in grant funds.

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## FINDING AND RECOMMENDATIONS

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Figure 2. Community Center Project Retaining Wall

Figure 2 illustrates the partially completed retaining wall for the Community Center project and the nearly completed 45-unit senior citizens building. The senior citizen building is not a part of the Community Center project.

**Compliance with Federal Regulations and DHCD Procedures.** DHCD did not comply with federal regulations and DHCD procedures that require it to effectively monitor and/or ensure accountability for the disbursement of grant funds. These regulations and procedures also assure that grant recipients and subrecipients disburse grant funds in a timely manner and solely for authorized purposes. The regulations further ensure that grant funds are properly accounted for and reconciled.

**Monitoring the Disbursement of Grant Funds.** DHCD records did not contain evidence to verify that site visits had been conducted at the Community Center project to monitor and track the progress being made for the \$1.3 million disbursement of grant funds. In particular, DHCD did not adequately monitor the project's progress in conjunction with the disbursement of grants funds for project related activities to ensure that the grant

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## FINDING AND RECOMMENDATIONS

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subrecipient, and any contractors used for the project, minimized the time elapsed between the transfer of funds. As a result, \$748,190 in grant funds had been advanced to the grant subrecipient for a 10-month period in which funds were not used for the project. Also, DHCD records do not contain evidence indicating that DHCH consistently conducted on-site monitoring for the Soil Stabilization project, resulting in \$416,070 in grant funds that were not being used for the project.

**DHCD Procedures and Controls.** DHCD has developed guidance for the administration of grant funds disbursed for CDBG related activities in its *Community Development Block Grant Subrecipient Management and Oversight Procedures*. However, DHCD has not developed similar procedures for the administration of grant funds disbursed under the HOME program. Although the Soil Stabilization project has been completed and \$950,000 of HOME funds disbursed, the grant subrecipient did not provide DHCD with documents to support \$416,070 in project costs. Without written procedures to describe the necessary processes to document and account for HOME grant funds, DHCD cannot ensure the effective use of HOME grant funds in accomplishing its mission. Furthermore, these grant funds may be subject to potential fraud, waste, or abuse.

**Reconciliation of Grant Funds Disbursed for the Community Center Project.** DHCD failed to follow its procedures for performing a reconciliation of reimbursable project costs. Specifically, DHCD did not perform a reconciliation of the documented project costs with the amount of grant funds advanced to the grant subrecipient. DHCD advanced grant funds (in two disbursements) to the grant subrecipient totaling \$1,315,446 for pre-development and construction costs. The disbursements consisted of \$715,500 advanced on May 22, 2002, (the Grant Agreement's execution date) and \$599,946 on August 30, 2002.

Project records indicated that on August 14, 2002, the contractor submitted to DHCD documentation of project costs that only totaled \$181,007 to support the May 22, 2002, advance of \$715,500. The contractor also submitted additional documentation to support project costs of \$749,185, and requested the second advance in the amount of \$599,946. In total, the contractor submitted documentation of project costs totaling \$930,190 (\$181,006 plus \$749,184) but was advanced approximately \$1.3 million in grant funds.

We performed a detailed review of the documents submitted by the contractor and found that only \$567,256 of the \$930,192 was for valid costs incurred for the Community Center project. Therefore, of \$1.3 million of grant funds advanced to fund pre-development and construction costs related to the Community Center project, \$748,190 (\$1,315,446 minus \$567,256) was not supported by valid vendor invoices for work completed on the project. A vendor's invoice is considered to be valid documentation to support costs for the Community Center project if the invoice identifies incurred cost that is associated with the Community Center project. For example, the May 22, 2003, disbursement by DHCD for \$715,500 was supported by documentation that included a cost proposal rather than actual incurred costs for \$57,360 submitted by an architectural firm. Also, the disbursement by DHCD for

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## FINDING AND RECOMMENDATIONS

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\$599,946 was supported by documentation that included a contractor's certified invoice for \$290,949 related to the Soil Stabilization project, rather than the Community Center project.

We issued Management Alert Report No. 03-A-01 to DHCD on April 6, 2003. In that report, we recommended that cash disbursements for the Community Center Project be suspended until the grant subrecipient provides appropriate supporting documentation to DHCD for project costs of \$1.3 million. We also recommended that DHCD initiate recoupment action to recover all CDBG funds disbursed to the grant subrecipient for project costs that were not properly documented. Prior to issuing this draft report, DHCD agreed to suspend cash disbursements and notified the contractor to return \$753,127. To date, DHCD has recovered \$580,000.

Prior to issuing this report, DHCD agreed to suspend cash disbursements and notified the contractor to return \$753,127. To date, DHCD has recovered 597,000, and obtained additional documentation to support project costs for \$155,508.

### **Reconciliation of Grant Funds Disbursed for the Soil Stabilization Project.**

DHCD disbursed a total of \$950,000 in HOME grant funds (advanced in five disbursements) to fund pre-development and site stabilization costs associated with the Soil Stabilization project. We performed a detailed review of the documentation submitted to support the project costs that were incurred. The supporting documentation accompanied the Payment Request for Work Performed submitted by the contractor.

The reconciliation disclosed that \$416,070 of the \$950,000 disbursed for the completed Soil Stabilization project had not been supported by valid vendor invoices of incurred project costs that were directly related to the Soil Stabilization project. A vendor's invoice is considered to be valid documentation to support costs for the Soil Stabilization project if the invoice identifies incurred cost that is associated with the Soil Stabilization project.

**Table 2** summarizes our analysis of the five grant fund disbursements by DHCD for the Soil Stabilization project and the supporting documents provided for incurred project costs.

## FINDING AND RECOMMENDATIONS

<b>Table 2. Analysis of Grant Funds Disbursed and Project Costs for the Soil Stabilization Project<sup>1</sup></b>				
<b>Disbursement Number</b>	<b>Amount of Funds Disbursed<sup>2</sup></b>	<b>Amount of Project Costs Supported by Valid Vendor Invoices</b>		<b>Unsupported Funds Disbursed</b>
		<b>Construction Costs<sup>3</sup></b>	<b>Other Costs</b>	
1	\$302,550.00	0.00	\$0.00	\$302,550.00
2	162,349.00	\$124,832.00	0.00	37,517.00
3	234,114.00	267,974.00	0.00	(33,860.00)
4	132,409.10	141,124.00	0.00	(8,714.90)
5	118,577.90	0.00	0.00	118,577.90
<b>Total</b>	<b>\$950,000.00</b>	<b>\$533,930.00</b>	<b>0.00</b>	<b>\$416,070.00</b>

<sup>1</sup> The analysis consisted of reconciling the Payment Request for Work Performed submitted by the contractor and the supporting vendor invoices for project costs incurred.

<sup>2</sup> The amount of funds disbursed by DHCD was determined by using the approved schedule of drawdowns (less 10 percent retainage for construction amount).

<sup>3</sup> The Construction Costs are the actual amount of construction costs incurred for the reporting period covered by the Payment Request for Work Performed. The supporting documentation for the construction costs incurred was an accompanying Application and Certificate For Payment, which was certified by an architect.

A review of the project file for the Soil Stabilization project showed that a Development Finance Division Construction Inspection Report Form was completed for disbursements two, three, four, and five, respectively. Each of the four inspection reports was signed by the DHCD architect and commented on the progress of the project and the quantity and quality of work completed, as of the inspection date. However, we noted that only inspection reports three, four, and five addressed and approved the total value of the drawdown amount requested by the grant subrecipient and disbursed by DHCD.

Prior to issuing this report, DHCD obtained additional documentation to support project costs for the Soil Stabilization Project amounting to \$292,570.

**Conclusion.** DCHA advanced a total of \$1,164,260 in CDBG and HOME grant funds to the grant subrecipients for pre-development and construction activities that had not been properly reconciled and accounted by DHCD or supported by valid documentation of costs related to the Community Center and Soil Stabilization projects. Each of the grant agreements contained a standard “Disbursement” clause stating that all grant proceeds shall

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## FINDING AND RECOMMENDATIONS

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be disbursed in accordance with the grant's approved drawdown schedule, provided that the recipient has satisfied the documentary requirements for disbursement to the satisfaction of the grantor. Also included in each grant agreement was the "Accounting/Audit Requirements" clause which provided that the grantee must completely document the use of the grant funds for the funding program's eligible activities.

We believe that a grant agreement's disbursement clause should state whether an approved drawdown schedule authorizes disbursements based on the cash advance method or the cash reimbursement method. Also, we believe that the grant agreement's disbursement clause should specify the documentation needed to support disbursements for incurred project costs and the timelines for providing such documents.

Although DHCD has developed procedures for the administration of CDBG funds, DHCD needs to develop additional policies and procedures for administering and monitoring cash disbursements that address the following:

- the criteria for receiving a cash distribution in the form of a cash advance;
- the method used to disburse grant funds;
- timelines for submitting documentation required to support disbursements by grant subrecipients;
- the types of documentation that are acceptable as valid support of incurred costs;
- the procedures for conducting a reconciliation of a project's cost and cash disbursements; and
- the procedures outlining personnel responsibilities.

We recommended that the Director, Department of Housing and Community Development:

### **RECOMMENDATION 1**

Establish policies and procedures for administering and monitoring cash distributions that address the following:

- a. The criteria for receiving a cash distribution in the form of a cash advance;
- b. The method used to distribute the cash, whether it be the cash advance method or the cash reimbursement method;
- c. Timelines for submitting the documentation required to support cash disbursements by subrecipients;

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## FINDING AND RECOMMENDATIONS

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- d. The types of documentation that are acceptable as valid support for incurred expenditures for a cash distribution;
- e. The responsibilities and procedures for conducting a reconciliation of cost expenditures submitted by recipients of a cash distribution; and
- f. The procedures DHCD personnel should adhere to when awarding and administering a cash disbursement.

### DHCD RESPONSE

DHCD agrees with the recommendation and will begin to draft procedures that address the issues raised. DHCD plans to finalize its policies and procedures document by December 31, 2003.

### OIG COMMENT

The actions planned by DHCD should correct the conditions noted.

### RECOMMENDATION 2

Specify in future grant agreements the process that will be used for a cash disbursement (cash advance method or cash reimbursement method) and specifically state a subrecipient's administrative responsibilities associated with the cash disbursement.

### DHCD RESPONSE

DHCD partially concurs. DHCD'S current agreements include a "Disbursement" section that defines how payments will be made to the grantee. For example, the soil stabilization agreement included the following language: "All Grant proceeds shall be disbursed in accordance with the said approved Drawdown Schedule in keeping with Section IV of this Agreement, provided, however, that the Grantee has satisfied the documentary requirements for disbursement to the satisfaction of Grantor, ..." DHCD will review the language in its current "Disbursement" section to determine if it should be improved. DHCD believes, however, that the written policies and procedures document to be developed by December 31, 2003 (see recommendation above), will provide the internal controls necessary for processing payments, including defining the required supporting documentation to be obtained from grantees.

### OIG COMMENT

Although DHCD partially concurs with the recommendation, DHCD believes that the written policies and procedures document discussed in Recommendation 1 will provide the internal

## **FINDING AND RECOMMENDATIONS**

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controls necessary for processing payments, including defining the required supporting documentation to be obtained from grantees. Therefore, the actions planned and taken by DHCD should correct the conditions noted.

### **RECOMMENDATION 3**

Require that future drawdowns disbursed to the grant subrecipient for Grant Agreement 2002-50 be disbursed on a cash reimbursement method that verifies the incurred costs associated with the project.

### **DHCD RESPONSE**

DHCD agrees with the recommendation and will ensure that future payments to the grant subrecipient for Grant Agreement 2002-50 are based on valid invoices.

### **OIG COMMENT**

The actions planned by DHCD should correct the conditions noted.

### **RECOMMENDATION 4**

Initiate recoupment actions on Grant Agreement 2001-63 to recover all HOME funds disbursed to the grant subrecipient that have not been properly supported with valid cost documentation.

### **DHCD RESPONSE**

DHCD agrees with the recommendation and conducted a reconciliation of the \$416,070 advance of grant funds disbursed to the grant subrecipient. As such, DHCD obtained additional supporting documentation for \$292,570 of project costs, and has requested from the grant subrecipient more detailed supporting documentation for \$123,500 in project costs.

### **OIG COMMENT**

The actions planned and taken by DHCD should correct the conditions noted.

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## EXHIBITS

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<b>Summary of Potential Benefits Resulting From Audit</b>		
<b>Recommendation</b>	<b>Description of Benefit</b>	<b>Amount and Type of Benefit</b>
1	Compliance and Internal Control. Create policies that address criteria for receiving a cash disbursement, disbursing cash, establishing documentation submission timelines, identifying valid support for cash disbursements, reconciling cost expenditures, and administering cash disbursements.	Nonmonetary.
2	Program Results. Specify in future grant agreements the specific cash disbursement policy and procedures.	Undeterminable. Benefit will be determined based on the elimination of funds that are disbursed for other than Grant Agreement activities.
3	Economy and Efficiency. Require future cash draws for Grant Agreement 2002-50 be disbursed using a cash reimbursement method.	One time savings of \$748,190 in CDBG funds will be used for the intended purposes of the Grant Agreement.
4	Economy and Efficiency. Initiate recoupment action for unsupported cost expenditures for Grant Agreement 2001-63.	One time savings of \$416,070 in HOME funds will be used for the intended purposes of the Grant Agreement.

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## MANAGEMENT ALERT REPORT

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GOVERNMENT OF THE DISTRICT OF COLUMBIA  
Office of the Inspector General

Inspector General



April 16, 2003

Stanley Jackson  
Director  
D.C. Department of Housing and Community Development  
801 North Capitol Street, N. E., Suite 8000  
Washington, D.C. 20002

Dear Mr. Jackson:

The Office of the Inspector General (OIG) is currently conducting an audit of the Department of Housing and Community Development's (DHCD) Management of Community Development Corporation (CDC) Projects. The audit is one in a series of audits being conducted under OIG Project No. 02-1-9DB.

The purpose of this Management Alert Report (MAR No. 03-A-01) is to inform you that, during the course of our audit, we found that appropriate supporting documentation was not provided by the Union Temple Community Development Corporation (UTCDC) to justify DHCD's disbursements of approximately \$1.3 million of Community Development Block Grant (CDBG) funds to UTCDC. Accordingly, we recommend that DHCD immediately suspend all future cash disbursements to the UTCDC pursuant to Grant Agreement No. 2002-50. Further, DHCD should initiate recoupement action, as appropriate, to recover all CDBG funds disbursed to UTCDC without proper supporting documents.

While we perceive this issue to be an isolated instance, we emphasize that our review is incomplete at this stage. In this regard, we look forward to continuing our working relationship with the staff of DHCD in an effort to bring closure to this issue. We request that you respond to this issue within 10 business days.

### Background

In a letter to the Inspector General dated March 3, 2002, you requested that our Office evaluate the management of CDC projects and federal grant funds by the DHCD. The objectives of our audit are to evaluate: (1) project management of grant funds within DHCD and grant funds provided to CDCs and other grant sub-recipients; (2) reconciliation and accounting for those grant funds within DHCD; and (3) benefits and appropriate use of those funds by CDCs and other grant sub-recipients.

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## MANAGEMENT ALERT REPORT

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Stanley Jackson, Director, Department of Housing and Community Development  
MAR No. 03-A-01  
April 16, 2003  
Page 2 of 3

### **Disbursement of CDBG Funds to UTCDC Were Not Properly Supported**

**Synopsis.** Our review of the master project files and other related documents for Grant No. 2002-50, the Walter E. Washington Community Center project, showed that the disbursements of CDBG funds to UTCDC were not properly supported. Specifically, vendor invoices submitted to support the disbursements were not always identified with the cost incurred for the project. As a result, there are no assurances that the disbursement of \$1.3 million in CDBG funds had been used for their intended purposes.

**Discussion.** DHCD awarded Grant No. 2002-50 on May 22, 2002, in the amount of \$1,837,000 to UTCDC to fund predevelopment and construction costs related to the Walter E. Washington Estates Community Center (the Community Center project). The Community Center project consists of a community center building, tennis courts, and a guardhouse. Also on May 22, 2002, UTCDC transferred/awarded (by grant) to Crawford/Edgewood Managers, Inc. (CEMI) the grant proceeds of \$1,837,000 to accomplish the construction and development of the community center. During our current review, we noted that DHCD made two cash disbursements totaling \$1,315,445.70 to UTCDC, which had been supported by the grant agreement draw schedule and CEMI's Payment Request for Work Performed (form #DPAH 306 A).

Our review of supporting documents for the two cash disbursements showed that the payments were supported by vendor invoices for other than incurred costs for the Community Center project. For example, on May 20, 2002, a cash disbursement for \$715,500 was supported by a cost proposal for \$57,360 submitted by an architectural firm. Also, on August 30, 2002, a cash disbursement for \$599,945.70 was supported by a contractor's certified invoice for \$290,949, for a 2002 Site Stabilization project, rather than the Community Center project.

In our opinion, DHCD should suspend future cash disbursements to UTCDC until the completion of our review of the supporting documentation associated with the Community Center project. This would permit DHCD to ensure that CDBG funds are being disbursed and used for the Community Center project costs as originally intended.

### **Recommendations**

We recommend that the Director, Department of Housing and Community Development:

1. Suspend cash disbursements for Grant No. 2002-50 until the completion of our review.
2. Initiate recoupement action, as appropriate, to recover all CDBG funds disbursed to UTCDC without proper supporting documentation.

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## MANAGEMENT ALERT REPORT

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Stanley Jackson, Director, Department of Housing and Community Development  
MAR No. 03-A-01  
April 16, 2003  
Page 3 of 3

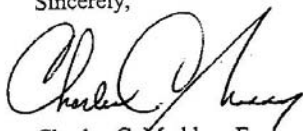
### Closing

Please provide your comments and response to the recommendations by **April 29, 2003**. Your response should include actions planned or taken, target dates for completing planned actions, and reason(s) for any disagreements with the issue and recommendations. You may suggest alternative actions that would resolve the conditions disclosed in this report.

**Our intention is to limit distribution of this Management Alert Report until comments are received. Therefore, please circulate it only to those personnel who will be directly involved in preparing your response.** The findings in this MAR are part of a work in progress, with additional audit work progressing on the overall issue of management of CDC projects. The completed audit will be the subject of a separate report that incorporates the preliminary results shown in this MAR.

Should you have questions concerning this report or desire a conference before preparing your response, please call me or William J. DiVello, Assistant Inspector General for Audits, at 727-2540.

Sincerely,



Charles C. Maddox, Esq.  
Inspector General

CCM/ws

Enclosure

cc: Mr. John A. Koskinen, City Administrator

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## DHCD RESPONSE TO MANAGEMENT ALERT REPORT

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GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT



Office of the Director

April 30, 2003

Mr. Charles Maddox  
Inspector General  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

Dear Mr. Maddox:

I am in receipt of your Management Alert Report dated April 16, 2003, regarding the Department of Housing and Community Development (DHCD) disbursements made to the Union Temple Community Development Corporation (UTCDC) for the Walter E. Washington Community Center, (Grant Agreement #2002-50).

As requested, DHCD's response to the recommendations are as follows:

**1. Suspend cost disbursements for Grant No. 2002-50 until completion of the OIG review.**

DHCD concurs with your recommendation. In the enclosed memorandum (Enclosure) dated April 21, 2003, I have requested that the Deputy Director of the Development Finance Division and the Comptroller immediately suspend payments to UTCDC for the Walter E. Washington Community Center.

**2. Initiate recoupment action, as appropriate, to recover all CDBG funds disbursed to UTCDC without proper supporting documentation.**

DHCD concurs with your recommendation, and will initiate appropriate action to recoup any unsupported funds. The staff is currently reviewing all documentation to determine the amount to be recouped. DHCD will submit the recoupment letter to UTCDC by May 5, 2003.

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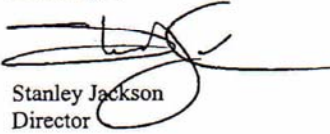
## DHCD RESPONSE TO MANAGEMENT ALERT REPORT

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Ltr. to Charles Maddox  
Page 2

Please feel free to contact [redacted] at (202) 442- [redacted] or me at (202) 442-7210, if  
you have any questions or concerns.

Sincerely,



Stanley Jackson  
Director

cc:

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## DHCD RESPONSE TO THE DRAFT REPORT

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GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Office of the Director



October 8, 2003

Mr. Charles Maddox  
Inspector General  
Office of the Inspector General  
717 14<sup>th</sup> Street, NW  
Washington, DC 20005

Dear Mr. Maddox:

I am in receipt of the DC Office of Inspector General's (DC OIG) draft report entitled "Audit of the Department of Housing and Community Development's Management of the Walter E. Washington Estates Community Center Project" dated August 29, 2003. This draft report does not reflect certain facts, including actions taken by the Department of Housing and Community Development's (DHCD) to address issues identified. As requested, DHCD's response to the draft report is as follows:

- The DC OIG's transmittal letter and draft report indicates that this audit was conducted in response to a request from the Director. In fact, the Director requested an audit of DHCD's management of Community Development Corporations (CDC). The DC OIG conducted the Walter E. Washington Estates Community Center audit as part of an overall audit of several CDC projects that DHCD funded from fiscal year 2001 through fiscal year 2003. The final report should reflect that fact.
- The DC OIG's transmittal letter and draft report does not recognize all of DHCD's actions taken to address the payment issues in the Walter E. Washington Estates Community Center Project. Prior to the issuance of the draft report, DHCD immediately suspended cash disbursements for the Walter E. Washington Estates Community Center Project, conducted a reconciliation of the advances, recouped \$597,620, obtained supporting documentation for \$155,508, and began drafting procedures for payment processing. Except for the draft procedures, DHCD submitted supporting documentation evidencing these actions to the DC OIG prior to the issuance of the draft report. The final report should reflect these changes.
- The DC OIG's draft report does not recognize any actions taken regarding the HOME Investment Partnerships Program (HOME) payments made for the soil stabilization contract. It is important to note that the DC OIG did not discuss the soil stabilization contract with DHCD officials prior to the issuance of the draft report. However, upon receipt of the draft report, DHCD immediately performed a reconciliation of the payments made, and obtained additional supporting documentation for \$292,570 in

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## DHCD RESPONSE TO THE DRAFT REPORT

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Letter to Charles Maddox  
Page 2

construction costs. DHCD has provided these documents to the DC OIG. DHCD request that the final report reflect that only \$123,500 in soft costs currently needs to be supported.

- The DC OIG's draft report states that the sub recipients did not use the grant funds for the intended purposes. DHCD believes the underlying issue in the DC OIG's report is that DHCD made advance payments, i.e., DHCD disbursed funds to the grant sub recipients without adequate supporting documents. The DC OIG's use of the words "not for the intended purpose" implies that grant funds were used for some other purposes, not identified in the draft report. The DC OIG has not provided any evidence to indicate what other purposes the funds were used for.
- On page 1 of the draft report in the "Soil Stabilization Project" section, the DC OIG refers to "so-called good dirt". DHCD finds the use of the words "so-called" to be derogatory. Soil stabilization, i.e. the removal of the existing dirt and importing of sanitary fill, was required to proceed with the development and construction of the HUD 202 elderly housing project. DHCD requests the removal of the words "so-called".
- On page 7 of the draft report in the "Visit to the Community Center's Construction Site" section, the DC OIG does not recognize the underground infrastructure activity work completed (i.e. water and sewer lines, and caissons), along with the "partial completion of a retaining wall and movement of soil." Consequently, of the \$1.3 million disbursed, about \$562,318.28 of construction activity completed at the time of the DC OIG's site visit included underground infrastructure.

The following is DHCD's response to each recommendation:

**The DC OIG recommended that DHCD establish procedures for administering and monitoring cash distributions that addresses the following: a) the criteria for receiving a cash distribution in the form of a cash advance; b) the method used to distribute the cash, whether it be the cash advance method or the cash reimbursement method; c) timelines for submitting the documentation required to support cash disbursements by sub recipients; d) the types of documentation that are acceptable as valid support for incurred expenditures for a cash distribution; e) the responsibilities and procedures for conducting a reconciliation of cost expenditures submitted by recipients of a cash distribution; and f) the procedures DHCD personnel should adhere to when awarding and administering a cash disbursement.**

DHCD agrees with the recommendation and will begin to draft procedures that address the issues raised above. DHCD will finalize its policies and procedures document by December 31, 2003.

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## DHCD RESPONSE TO THE DRAFT REPORT

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Letter to Charles Maddox  
Page 3

**The OIG recommended that DHCD specify in future grant agreements the process that will be used for a cash disbursement (cash advance method or cash reimbursement method) and specifically state a sub recipient's administrative responsibilities associated with the cash disbursement.**

DHCD partially concurs. DHCD's current agreements include a "Disbursement" section that defines how payments will be made to the grantee. For example, the soil stabilization agreement included the following language: "All Grant proceeds shall be disbursed in accordance with the said approved Drawdown Schedule in keeping with Section IV of this Agreement, provided, however, that the Grantee has satisfied the documentary requirements for disbursement to the satisfaction of Grantor, ..." DHCD will review the language in its current "Disbursement" section to determine if it should be improved. DHCD believes, however, that the written policies and procedures document to be developed by December 31, 2003 (see recommendation above), will provide the internal controls necessary for processing payments, including defining the required supporting documentation to be obtained from grantees.

**The DC OIG recommended that DHCD require that future draw downs disbursed to the grant sub recipient for Grant Agreement 2002-50 be disbursed on a cash reimbursement method that verifies the incurred costs associated with the project.**

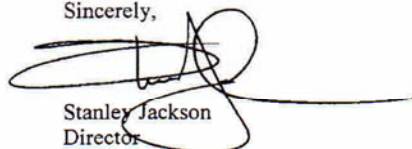
DHCD agrees, and will ensure that future payments to the grant sub recipient for Grant Agreement 2002-50 are based on valid invoices.

**The DC OIG recommended that DHCD initiate recoupment actions on Grant Agreement 2001-63 to recover all HOME funds disbursed to the grant sub recipient that have not been properly supported with valid cost documentation.**

DHCD agrees. DHCD has conducted a reconciliation of the HOME payments, obtained additional supporting documentation for \$292,570 of construction costs, and requested more detailed supporting documentation for \$123,500 in soft costs incurred.

Please feel free to contact \_\_\_\_\_, Deputy Director for the Office of Program Monitoring at (202) 442-\_\_\_\_\_ or me at (202) 442-7210, if there are any questions or concerns.

Sincerely,



Stanley Jackson  
Director

cc:

## DC OIG COMMENTS ON DHCD's RESPONSE TO THE DRAFT REPORT

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### **District of Columbia Office of the Inspector General Comments on the Department of Housing and Community Development's Response to the Draft Report on the Management of the Walter E. Washington Estates Community Center Project**

**The following is an OIG analysis of and our comments on DHCD's response to a draft of this report.**

DHCD Response, page 1 of 3: The DC OIG's transmittal letter and draft report indicates that this audit was conducted in response to a request from the Director. In fact, the Director requested an audit of DHCD's Management of Community Development Corporations (CDC). The DC OIG conducted the Walter E. Washington Estates Community Center audit as part of an overall audit of several CDC projects that DHCD funded from fiscal year 2001 through fiscal year 2003. The final report should reflect that fact.

**DC OIG Comment: The final report has been changed to reflect that the Office of the Inspector General conducted the Walter E. Washington Estates Community Center audit as part of the overall audit of the Department of Housing and Community Development's Management of Community Development Corporation projects.**

DHCD Response, page 1 of 3: The DC OIG's transmittal letter and draft report does not recognize all of DHCD's actions taken to address the payment issues in the Walter E. Washington Estates Community Center Project. Prior to the issuance of the draft report, DHCD immediately suspended cash disbursements for the Walter E. Washington Estates Community Center Project, conducted a reconciliation of the advances, recouped \$597,620, obtained supporting documentation for \$155,508, and began drafting procedures for payment processing. Except for the draft procedures, DHCD submitted supporting documentation evidencing these actions to the DC OIG prior to the issuance of the draft report. The final report should reflect these changes.

**DC OIG Comment: The final report has been changed to reflect that prior to issuing this report, DHCD immediately agreed to suspend cash disbursements for the Walter E. Washington Estates Community Center project, recovered \$597,620, obtained additional documentation to support project costs for \$155,508, and conducted a reconciliation of the \$1.3 million advance of grant funds disbursed to the grant subrecipient.**

## DCOIG COMMENTS ON DHCD's RESPONSE TO THE DRAFT REPORT

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DHCD Response, page 1 of 3: The DC OIG's draft report does not recognize any actions taken regarding the HOME Investment Partnerships Program (HOME) payments made for the soil stabilization contract. It is important to note that the DC OIG did not discuss the soil stabilization contract with DHCD officials prior to the issuance of the draft report. However, upon receipt of the draft report, DHCD immediately performed a reconciliation of the payments made, and obtained additional supporting documentation for \$292,570 in construction costs. DHCD has provided these documents to the DC OIG. DHCD requests that the final report reflect that only \$123,500 in soft costs currently needs to be supported.

**DC OIG Comment: The final report has been changed to reflect that prior to issuing this report, the Department of Housing and Community Development obtained additional documentation to support project costs for the Soil Stabilization Project amounting to \$292,570.**

DHCD Response, page 2 of 3: The DC OIG's draft report states that the sub recipients did not use the grant funds for the intended purposes. DHCD believes the underlying issue the DC OIG's report is that DHCD made advance payments, i.e., DHCD disbursed funds to the grant sub recipients without adequate supporting documents. The DC OIG's use of the words "not for the intended purpose" implies that grant funds were used for some other purposes, not identified in the draft report. The DC OIG has not provided any evidence to indicate what other purposes the funds were used for.

**DC OIG Comment: Our rationale for stating that the grant funds were not used for the intended purposes (of grant agreement) is based upon the information shown in: (1) the Schedule of Budgeted and Approved Drawdowns for the Community Center Project, which is incorporated in the grant agreement, (2) the disbursement dates for drawdowns numbers 1 and 2, (3) the date of our site visit, and (4) the information provided to OIG in DHCD's response to our draft report, as fully explained below.**

**The Schedule of Budgeted and Approved Drawdowns for the Community Center Project provides details on the project budget and indicates that the estimated total costs for the project to be \$1.837 million. The disbursements consisted of \$715,500 advanced on May 22, 2002, (the Grant Agreement's execution date) and \$599,946 on August 30, 2002, which totaled \$1.315 million (72% of the total grant funds budgeted for the project).**

**On the date of our site visit, March 18, 2003, approximately 7 months after the second disbursement, DHCD officials could not provide us with specific details as to what construction activities had been completed, although \$1.315 million in grant funds had been disbursed.**

## DCOIG COMMENTS ON DHCD's RESPONSE TO THE DRAFT REPORT

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**However, information provided to OIG in DHCD's response to our draft report, states that of the \$1.3 million disbursed, about \$562,318.28 of construction activity completed at the time of the OIG site visit included underground infrastructure.**

**Therefore, \$753,128 in grant funds remained unaccounted for between the date of the second disbursement (August 30, 2002) and the date of our site visit (March 18, 2003), or approximately 7 months, as evidenced by DHCD's written request to the grant subrecipient to return \$753,127 in grant funds.**

**As such, DHCD could not provide us with documentation to support the "use" of \$753,128 of grant funds by the grant subrecipient during the 7-month period of August 30, 2002, and March 18, 2003, which is OIG's basis for concluding that the grant funds were not used for the intended purposes of grant agreement.**

DHCD Response, page 2 of 3: On page 1 of the draft report in the "Soil Stabilization Project" section, the DC OIG refers to "so-called good dirt." DHCD finds the use of the words "so-called" to be derogatory. Soil Stabilization, i.e., the removal of the existing dirt and importing of sanitary fill, was required to proceed with the development and construction of the HUD 202 elderly housing project. DHCD requests the removal of the words "so-called."

**DC OIG Comment: The OIG agrees to remove the words "so-called good dirt" from the report. However, it should be noted that this descriptive phrase was obtained from a Department of Housing and Community Development memorandum, dated October 5, 2001. The memorandum was written by a DHCD Project Manager requesting approval by the DHCD Loan Committee of the Walter E. Washington Estates Community Center and Soil Stabilization projects.**

DHCD Response, page 2 of 3: On page 7 of the draft report in the "Visit to the Community Center's Construction Site" section, the DC OIG does not recognize the underground infrastructure activity work completed (i.e., water and sewer lines, and caissons), along with the "partial completion of a retaining wall and movement of soil." Consequently, of the \$1.3 million disbursed, about \$562,318.28 of construction activity completed at the time of the DC OIG's site visit included underground infrastructure.

**DC OIG Comment:**

**Our report states that the only visible apparent construction activities were the partial completion of a retaining wall and the movement of soil. OIG accepts DHCD's explanation regarding \$562,318.28 of construction activity completed on underground infrastructure.**